

London's Economy Today

Issue 106 | June 2011

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Threat of Greek default hits Eurozone and risk of contagion heightens

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European Union finance ministers have yet to agree on how to exactly handle Greece's slow drift towards default. This has caused uncertainty and volatility in many markets and led to rising government bond spreads in Ireland and Portugal compared to Germany (see Figure 1). German President Angela Merkel has called for the private sector to contribute voluntarily to a new bail-out of Greece by rolling over loans and extending maturities, though rating agencies have said that they will classify this as a default.

While the market for insuring Greek sovereign debt suggests that a Greek default at some point is more likely than not, nobody knows the exact magnitude or how wide the ramifications of a default would be and this uncertainty worries governments across the world. Some speculate that if it happens in a disorderly manner it could cause a financial crisis on par with the aftermath of the collapse of Lehman Brothers three years ago.

Latest news...

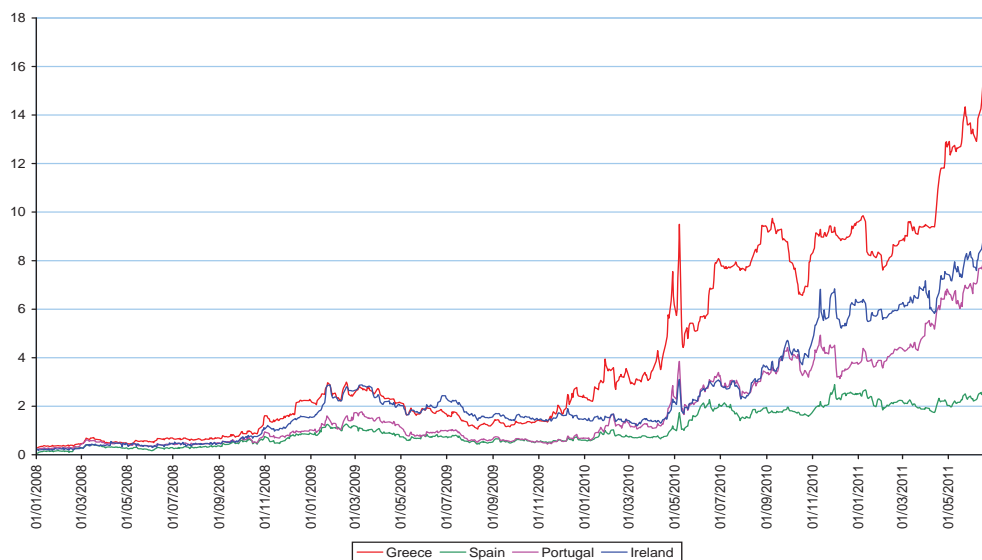
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Figure 1: Ten-year government bond spreads over German bonds, percentage points
Last data point is 28/06/11

Source: EcoWin

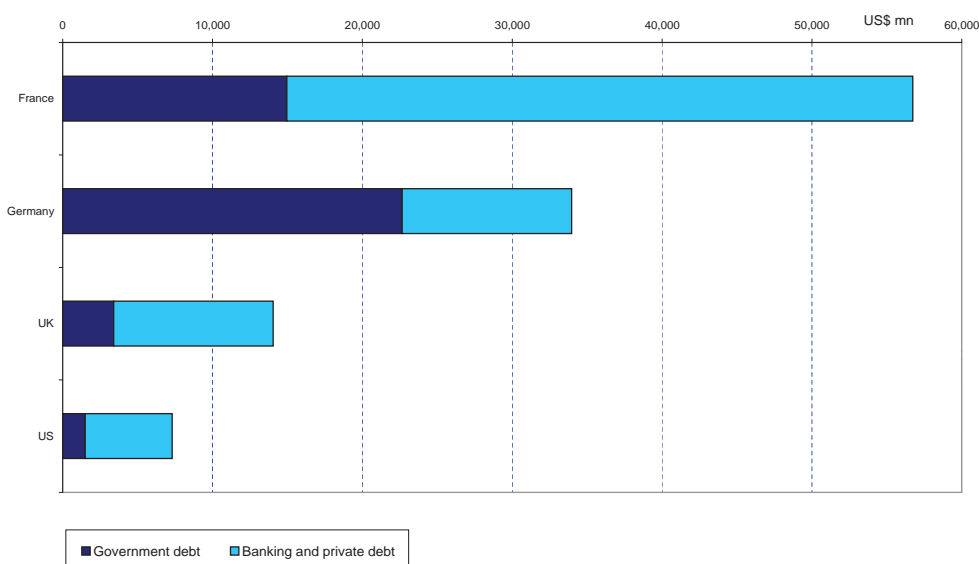


If Greece were to default, banks across the world would face losses that could cause some banks to fail and some systemically important ones to be bailed out. French and German banks would be especially hard hit. Greece's domestic financial system would be crippled and there would be a ripple effect through the global financial system.

Direct UK exposure to Greek debt, both public and private, is relatively limited and was US\$14 billion in December 2010 (see Figure 2) so can be coped with. However, the escalation of stresses in money markets caused by a disorderly Greek default would lead to a tightening of bank lending conditions across the globe including in the UK, impacting negatively upon London businesses and households. The impact on confidence could also be severe.

Figure 2: Exposure to Greek debt – France, Germany, UK and US
As at December 2010

Source: Bank for International Settlements



IMF endorses Government's deficit reduction strategy

The International Monetary Fund (IMF) has delivered a strong endorsement of the Government's fiscal strategy. Acting manager of the IMF John Lipsky stated that "strong fiscal consolidation is underway and remains essential." The IMF believes that the current settings of fiscal and monetary policy "will support economic rebalancing to a more sustainable equilibrium." The IMF also suggested that if "the economy experiences a prolonged period of weak growth and high unemployment" tax cuts might be appropriate and could be targeted to "investment, low income households or job creation." The IMF forecasts UK growth of 1 ½ per cent in 2011, a downward revision from their

last forecast, and expects growth to accelerate “to around 2½ per cent over the medium term.” Inflation is “likely to remain above 4 per cent for most of 2011, but then gradually return near the 2 per cent target as transitory factors dissipate”. Elsewhere the British Chambers of Commerce reduced slightly its growth forecast for the UK economy for both 2011 and 2012 to 1.3 per cent and 2.2 per cent respectively. The OECD recently forecast that global growth in 2011 would be 4.2 per cent, lower than the 4.9 per cent seen in 2010, before bouncing back to 4.6 per cent in 2012. However, it warned that high oil prices and a possible sharp slowdown in China could hinder global growth, possibly leading to stagflation in certain countries. So although the global, UK and London economic recoveries appear to be continuing they remain quite fragile.

Chancellor announces support for ring-fencing retail banking

George Osborne has endorsed plans put forward by the Independent Commission on Banking (ICB) to ring-fence retail banking from investing banking operations in his Mansion House speech. The proposal was put forward in the ICB’s interim report in April and is intended to reduce the state’s exposure to the failure of any bank by safeguarding retail deposits, while also allowing banks to fail more easily. However, the devil is in the details and these have not yet been decided upon. In the same speech, George Osborne announced the Government’s intention to privatise Northern Rock with analysts expecting it to fetch up to £1 billion but the Chancellor has acknowledged that the Government will continue to own stakes in RBS and Lloyds for some years to come. Elsewhere, it has been reported that Swiss bank UBS is considering moving the headquarters of its investment banking division to London in response to regulatory changes in Switzerland.

London housing market outperforming the UK but business confidence remains weak

The Bank of England’s Regional Agents have commented that despite overall UK housing market activity remaining very subdued there has been an improvement at the top end of the market, especially in the capital. Homebuilders Berkeley Group recently reported continuing strong demand in the south east and London, where supply is constrained. Demand is firmer in London than in the rest of the UK, buoyed by overseas investors who benefit from the weak pound. The Bank of England’s Regional Agents have also reported a significant increase in new office space under construction in London.

Meanwhile the Institute of Chartered Accountants in England and Wales (ICAEW) have reported that business confidence in London weakened in the second quarter of 2011 compared with the first quarter and that business confidence in the capital is now in line with the UK as a whole. The ICAEW noted that “given London’s more internationalised services sector, weakening confidence is likely to reflect a general concern about the strength of the global economy, amid ongoing unrest in the Middle East and North Africa, and lacklustre growth in the developed world.” The ICAEW also noted that “although confidence may be weakening in the capital, firms report notable improvements in a range of key performance indicators this quarter” with turnover and annual gross profits both rising over the last 12 months. The ICAEW concluded that London continues to recover albeit subject to the same downward economic pressures as faced by the UK.

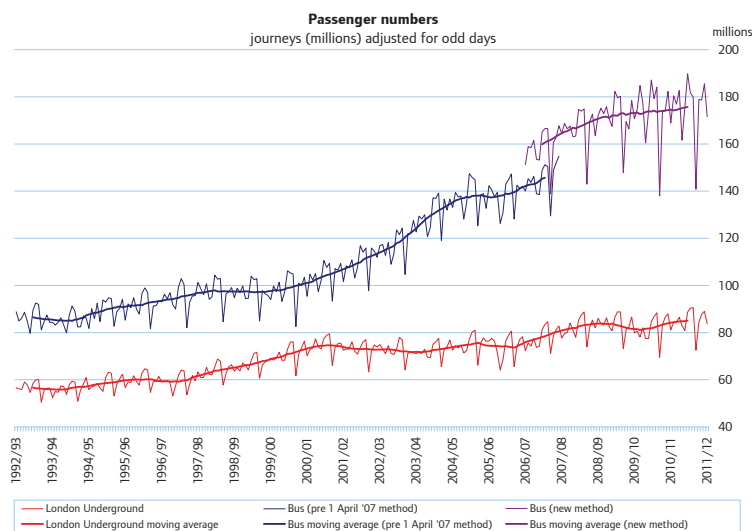
Economic indicators

Increase in moving average of passenger numbers

- The most recent 30 day period is from 1 April 2011 to 30 April 2011. Adjusted for odd days, London's Underground and buses had 255.3 million passenger journeys; 171.6 million by bus and 83.7 million by Underground.
- The moving average of passengers every period increased to 260.8 million from 260.3 million in the previous period. The moving average for buses was 175.7 million. The moving average for the Underground was 85.1 million.
- The methodology used to calculate the number of bus passenger journeys was changed by TfL from 1 April 2007. For a detailed explanation please see LET issue 58 (June 2007).

Latest release: June 2011

Next release: July 2011



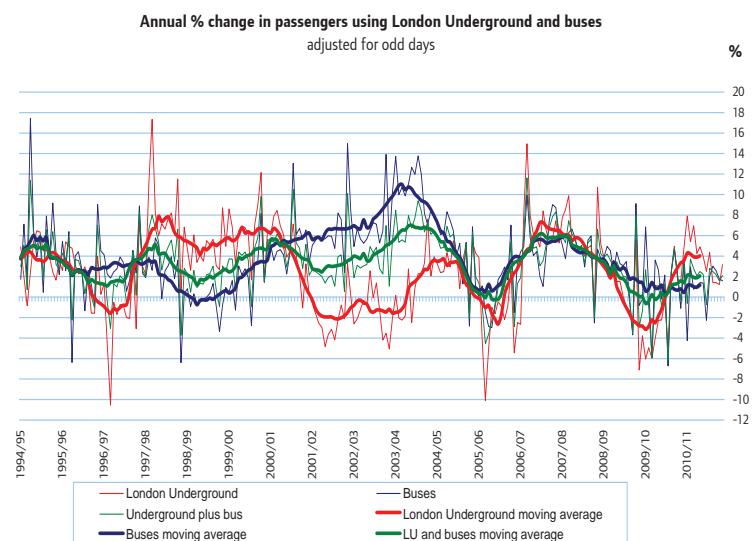
Source: Transport for London

Average annual growth rate of passengers increasing

- The moving average annual rate of growth in passenger journeys increased to 2.1% from 1.9% in the previous period.
- The moving average annual rate of growth in bus passenger journey numbers increased to 1.2% from 1.0% in the previous period.
- The moving average annual rate of growth in Underground passenger journey numbers increased to 4.0% from 3.9% in the previous period.

Latest release: June 2011

Next release: July 2011



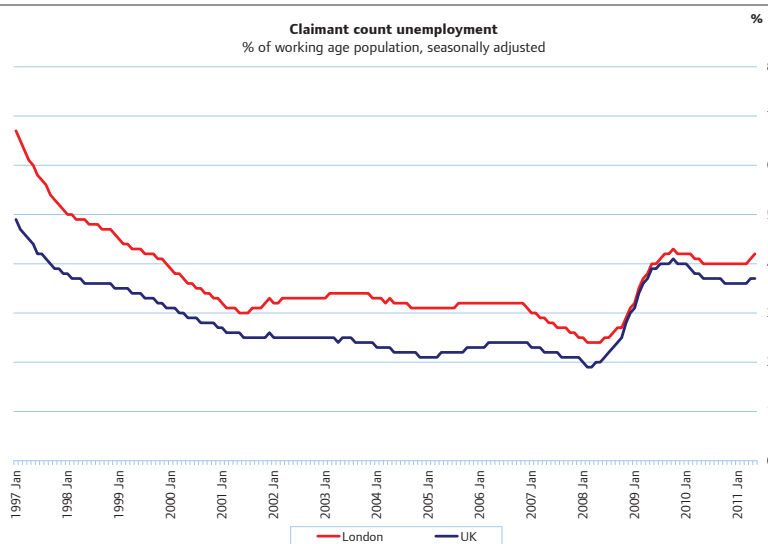
Source: Transport for London

Claimant count unemployment

- The percentage of the resident working age population who are unemployed and claiming Jobseekers' Allowance (seasonally adjusted) in London was 4.2% in May 2011.
- There were 223,500 seasonally adjusted unemployment claimants in London in May 2011 compared with a downwardly revised 221,700 in April 2011.
- There were 1,492,700 seasonally adjusted unemployment claimants in the UK in May 2011 compared with an upwardly revised 1,473,100 in April 2011.

Latest release: June 2011

Next release: July 2011



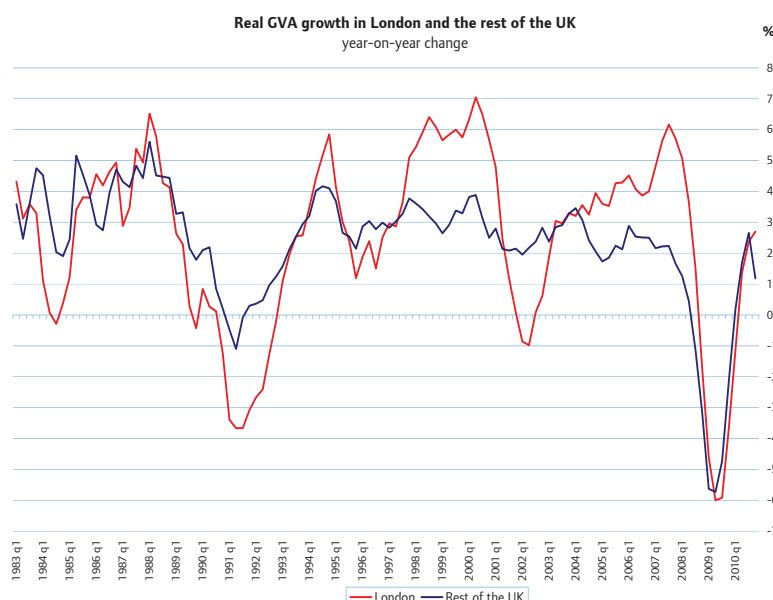
Source: Claimant Count, Nomis

Annual output growth in London increased in Q4 2010

- London's annual growth in output increased to 2.7% in Q4 2010 from a downwardly revised 2.4% in Q3 2010.
- Annual output growth in the rest of the UK decreased to 1.2% in Q4 2010 from 2.7% in Q3 2010.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: May 2011

Next release: August 2011

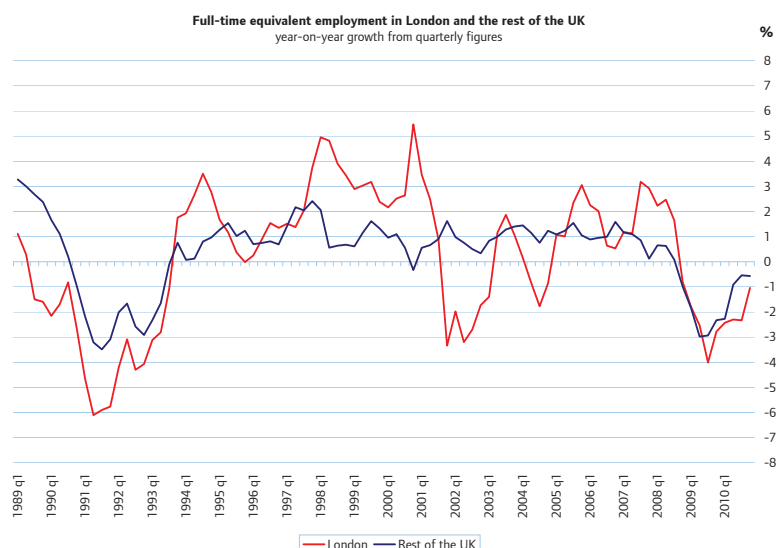


Negative annual employment growth in Q4 2010

- London's annual employment growth increased to -1.0% in Q4 2010 from a downwardly revised -2.3% in Q3 2010.
- Annual employment growth in the rest of the UK decreased to -0.6% in Q4 2010 from a downwardly revised -0.5% in Q3 2010.
- There have been revisions to previous growth rates to reflect the availability of new data.

Latest release: May 2011

Next release: August 2011

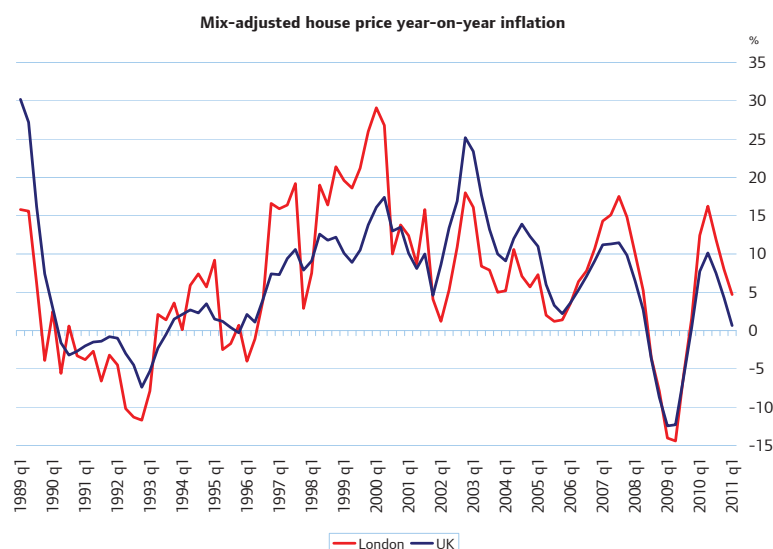


Annual house price inflation falling

- The Department for Communities and Local Government (DCLG) house price index is an official measure of house prices. It is available up to Q1 2011.
- The DCLG reported a fall in annual house price inflation in both London and the UK in Q1 2011.
- Annual house price inflation in London decreased to 4.7% in Q1 2011 from 8.0% in Q4 2010. Annual house price inflation in the UK decreased to 0.6% in Q1 2011 from 4.3% in Q4 2010.

Latest release: May 2011

Next release: August 2011

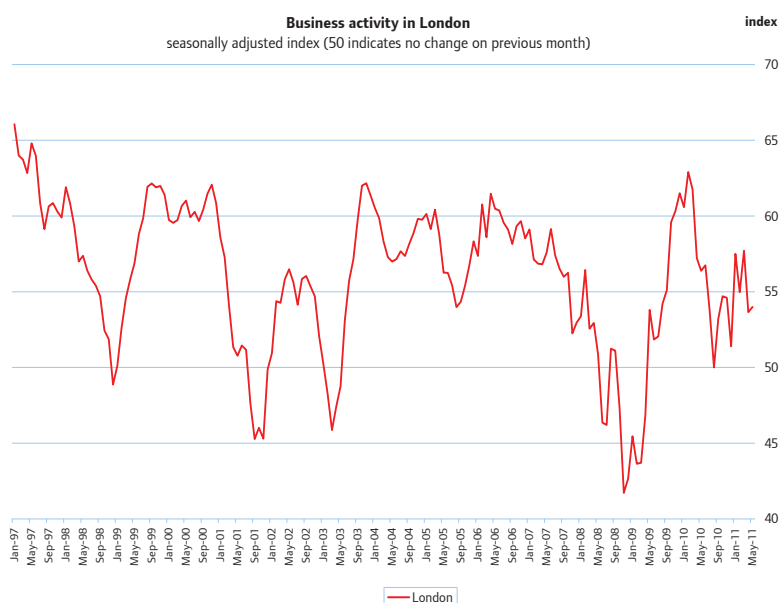


London's business activity increasing

- London firms increased their output of goods and services in May 2011.
- The Purchasing Managers' Index (PMI) of business activity recorded 54.0 in May 2011 compared to 53.7 in April 2011.
- A rate of above 50 on the index indicates an increase in business activity from the previous month.

Latest release: June 2011

Next release: July 2011



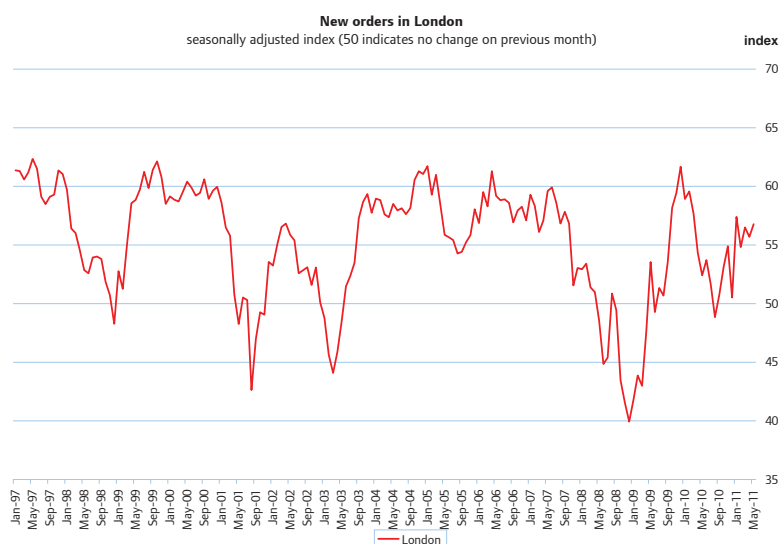
Source: Markit Economics

New orders in London rising

- May 2011 saw an increase in new orders for London firms.
- The PMI for new orders recorded 56.8 in May 2011 compared to 55.7 in April 2011.
- A rate of above 50 on the index indicates an increase in new orders from the previous month.

Latest release: June 2011

Next release: July 2011



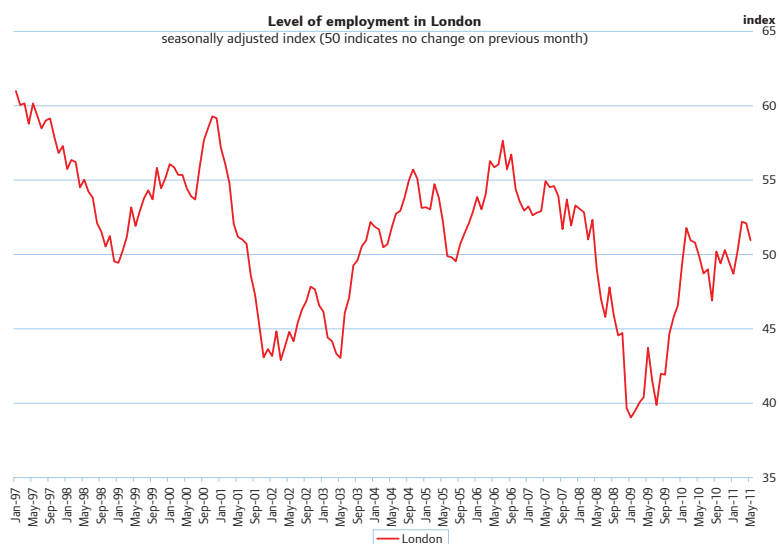
Source: Markit Economics

Businesses report higher employment in May

- The PMI shows that the level of employment in London firms increased in May 2011.
- The PMI for the level of employment was 51.0 in May 2011 compared to 52.1 in April 2011.
- A rate of above 50 on the index indicates an increase in the level of employment from the previous month.

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Next release: July 2011



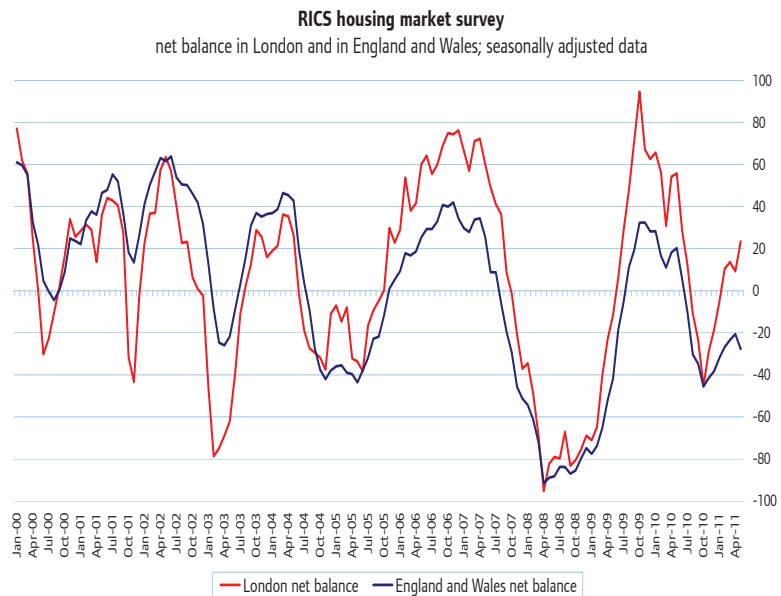
Source: Markit Economics

Surveyors report that house prices are increasing in London

- The RICS survey shows a positive net balance of 23 for London house prices over the past three months to May 2011.
- Surveyors reported a negative net house price balance for England and Wales of -28 over the past three months to May 2011.
- London's net house price balance is higher than that of England and Wales.

Latest release: June 2011

Next release: July 2011



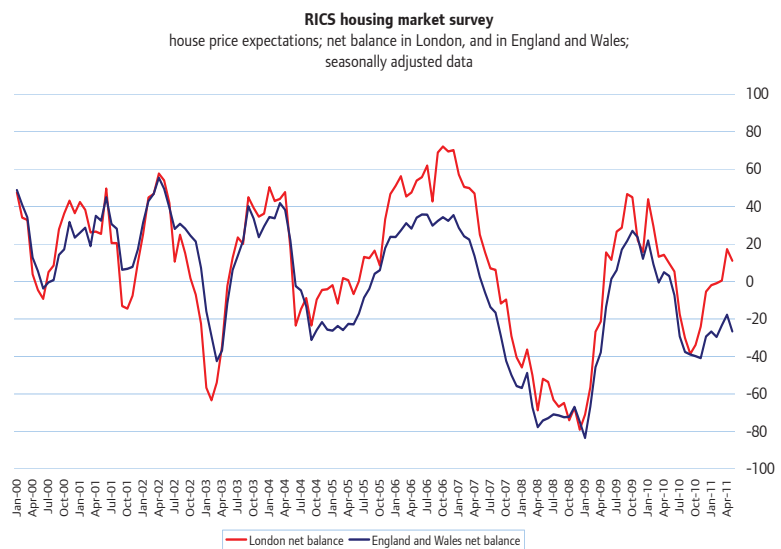
Source: Royal Institution of Chartered Surveyors

Surveyors expect house prices to rise in London

- The RICS survey shows that surveyors expect house prices in London to rise over the next three months but to continue to fall in England and Wales.
- The net house price expectations balance in London was 11 in May 2011.
- For England and Wales, the net house price expectations balance was -27 in May 2011.

Latest release: June 2011

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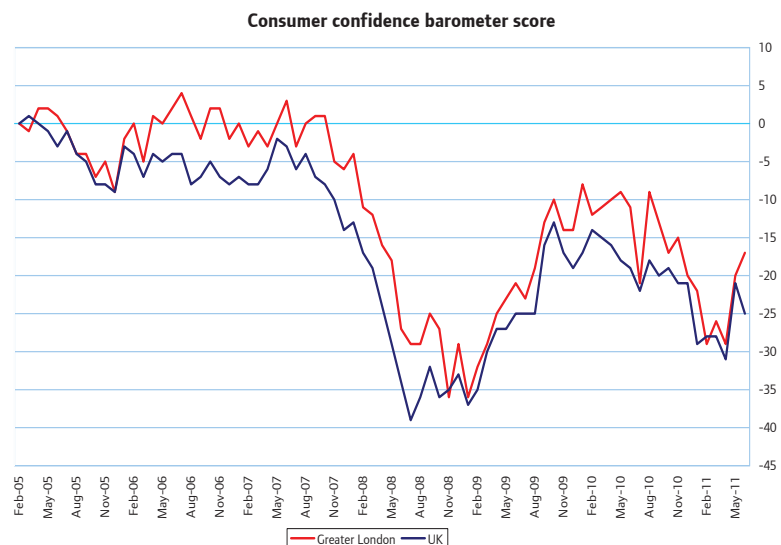
Source: Royal Institution of Chartered Surveyors

Consumer confidence remains negative

- The GfK index of consumer confidence reflects people's views on their financial position and the general economic situation over the past year and their expectations for the next 12 months (including whether now is a good time to make major purchases). A score below zero signifies negative views of the economy.
- For Greater London the consumer confidence score increased to -17 in June 2011 from -20 in May 2011.
- For the UK the consumer confidence score decreased to -25 in June 2011 from -21 in May 2011.

Latest release: June 2011

Next release: July 2011



Source: GfK NOP on behalf of the European Commission

Data sources

Tube and bus ridership

Transport for London on 020 7222 5600
or email: enquire@tfl.gov.uk

GVA growth

Experian Economics on 020 7746 8260

Unemployment rates

www.statistics.gov.uk

Glossary

Civilian workforce jobs

Measures jobs at the workplace rather than where workers live. This indicator captures total employment in the London economy, including commuters.

Claimant count unemployment

Unemployment based on the number of people claiming unemployment benefits.

Employee jobs

Civilian jobs, including employees paid by employers running a PAYE scheme. Government employees and people on training schemes are included if they have a contract of employment. Armed forces are excluded.

Gross domestic product (GDP)

A measure of the total economic activity in the economy.

Gross value added (GVA)

Used in the estimation of GDP. The link between GVA and GDP is that GVA plus taxes on products minus subsidies on products is equal to GDP.

Tube ridership

Transport for London's measure of the number of passengers using London Underground in a given period. There are 13 periods in a year. In 2011/12 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2011.

Bus ridership

Transport for London's measure of the number of passengers using buses in London in a given period. There are 13 periods in a year. In 2011/12 there are eleven 28-day periods, one 27-day period and one 30-day period. Period 1 started on 1 April 2011.

Acronyms

ABI	Annual Business Inquiry	IMF	International Monetary Fund
BAA	British Airports Authority	LCCI	London Chamber of Commerce and Industry
BCC	British Chamber of Commerce	LET	London's Economy Today
CAA	Civil Aviation Authority	MPC	Monetary Policy Committee
CBI	Confederation of British Industry	ONS	Office for National Statistics
CLG	Communities and Local Government	PMI	Purchasing Managers' Index
GDP	Gross domestic product	PWC	PricewaterhouseCoopers
GVA	Gross value added	RICS	Royal Institution of Chartered Surveyors
ILO	International Labour Organisation		

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June 2011

ISSN 1740-9136 (print)

ISSN 1740-9195 (online)

ISSN 1740-9144 (email)

London's Economy Today is published by email and on www.london.gov.uk towards the end of every month. It provides an overview of the current state of the London economy, and a selection of the most up-to-date data available. It tracks cyclical economic conditions to ensure they are not moving outside the parameters of the underlying assumptions of the GLA group.

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About GLA Economics

GLA Economics provides expert advice and analysis on London's economy and the economic issues facing the capital. Data and analysis from GLA Economics provide a sound basis for the policy and investment decisions facing the Mayor of London and the GLA group. The unit was set up in May 2002.